



The Federal Report

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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The Month in Washington: January 2006

The Jack Abramoff scandal shook Washington in January, with Abramoff pleading guilty to felony charges, lawmakers rushing to return campaign donations they had received from him and his clients and everybody waiting to see who, if anyone, on Capitol Hill would be implicated in influence-peddling schemes by the lobbyist. Proposals to reform lobbyists' interaction with lawmakers jumped toward the top of the congressional agenda as legislators seek to demonstrate that they are concerned about the revelation that money might be used to influence politics. (See *"California Representative Picked to Lead Lobbying Reform Efforts" under "California Congressional Delegation."*)

The Senate, by a vote of 58-42, confirmed Judge Samuel Alito to replace Justice Sandra Day O'Connor on the U.S. Supreme Court on Jan. 31. Many Democrats considered Alito to be too conservative and only four voted in favor of his nomination.

Issues and Events

Pension Reform on Congressional Agenda

Congress is expected to vote on a compromise pension reform bill in early 2006.

The House passed the Pension Protection Act of 2005 (H.R. 2830) in December, a month after the Senate passed the Pension Security and Transparency Act of 2005 (S 1783). Both bills are focused on revising funding rules for private sector pensions and increasing premiums paid to the Pension Benefit Guaranty Corporation (PBGC), the federal agency that insures private pensions. In addition, though, the bills address several issues of interest to participants in public plans, including purchase of service credit rules, early distribution penalties for public safety workers, minimum distribution regulations and the deductibility of health care premium expenses from retiree income.

Lawmakers from both chambers must now merge the two bills into one, which will then be voted on by both chambers. (See *"Public Groups Lobby Lawmakers on Pension Measures" under "Related National and Industry News."*) While the Senate returned from its holiday recess in mid-January, the House was not scheduled to reconvene until January, 31st.

U.S. Secretary of Labor Elaine Chao in late January said that pension reform is a priority of the Bush administration and urged Congress to address the issue quickly. White House officials, though, have also said that they think the congressional proposals need to be strengthened if they are to improve the stability of the nation's pensions.

Feds Promise to Reimburse States for Drug Costs

The federal government has promised to reimburse states for expenses they have incurred since January, 1st providing prescription drug coverage to low-income and disabled seniors.

About 6.2 million seniors are eligible for Medicaid, and they were to be transitioned from that program's drug coverage to Medicare Part D, which began on January 1st. The process has not been a smooth one, however, and many of these "dual eligibles" have found that, while their Medicaid drug coverage ended on time, the start of their Medicare drug coverage is lagging.

Several states have stepped in to ensure that they are covered at a nationwide cost of several million dollars a day. U.S. Secretary of Health and Human Services Michael Leavitt promised on January 24th that the agency would reimburse states for expenses incurred through Feb. 15 that should have been covered by Medicare.

Bush administration officials just days earlier had said that they would not reimburse states, prompting several lawmakers to back legislation that would put a reimbursement requirement into law.

SEC OKs Executive Compensation Rules

The Securities and Exchange Commission (SEC) on January 17th gave preliminary approval to a proposal that would require companies to disclose more information about the compensation given to their top executives.

The proposal, which is strongly supported by SEC Chairman Christopher Cox, a former Republican congressman from California, would require companies to disclose all executive perks worth more than \$10,000 – the current threshold is \$50,000 – and to inform shareholders of the total value of compensation packages, including the value of such things as stock options and the use of corporate jets.

While many corporate governance activists support the measure as a positive step at a time when large executive compensation packages are much in the news, some observers have suggested that it actually could lead to larger compensation packages, since executives could use information about what rival companies are paying to swell their own deals.

The SEC is accepting public comments on the proposal through mid-March.

CalPERS, Other Groups Meet State Department Representative

Representatives of CalPERS, Lussier, Gregor, Vienna & Associates, the New York State Comptroller's Office, the Connecticut Treasurer's Office, the Council of Institutional Investors, the National Association of State Retirement Administrators and the National Conference on Public Employee Retirement Systems met with a State Department official on January 18th to discuss issues connected with investments in Sudan.

Last June, CalPERS and 49 other funds sent a letter to four government agencies – including the State Department – asking for assistance in identifying entities doing business in Sudan and other nations that they should avoid when investing. Responses from the agencies included links to several federal government Web sites that contain information on entities and individuals that have been flagged by the federal government. However, no information directly identifying which entities to avoid was provided.

Strategic Recommendations

LGV&A is not offering any new strategic recommendations to the Board this month.

California Congressional Delegation**California Representative Picked to Lead Lobbying Reform Efforts**

The lobbying scandals that are creating headaches for many lawmakers have increased the prominence of Rep. David Dreier (R-CA-26th).

With investigations ongoing related to lobbyist Jack Abramoff, who recently pleaded guilty to several felony charges, it is thought that one or more members of Congress or their aides could be implicated as accomplices to his misdeeds, and many in Congress are seeking to stanch public outrage about perceived corruption by pushing for lobbying reform. Dreier the chairman of the House Rules Committee has been charged by House GOP leaders with crafting reform legislation. Although Abramoff reportedly donated to members of both parties – money that recipients are now scrambling to return – he has been most closely associated with Republicans. As a result, the majority party has taken the brunt of the heat in the scandal, with Democratic lawmakers decrying a “culture of corruption” they say has been fostered by the GOP.

In mid-January, Dreier and Speaker of the House Dennis Hastert (R-IL) announced the principles that will shape the reform proposal, including a ban on privately-funded travel by members of Congress, tighter limits on the gifts that can be received by lawmakers and increased disclosure by lobbyists.

Dreier had been mentioned as a possible interim House majority leader when Tom Delay (R-TX) was forced to step down after being indicted on money laundering charges, but his bid was reportedly blocked by conservative Republicans who considered him to be too moderate for the post.

Related National and Industry News

Public Groups Lobby Lawmakers on Pension Measures

Pension reform legislation should include several provisions of importance to public pension plans, a coalition of public employer and public employee organizations said in a letter sent to dozens of members of Congress in late December.

Lawmakers are working on a compromise pension reform bill that will merge the versions passed by the House and Senate. (See *"Pension Reform on Congressional Agenda" under "Issues and Events."*) While both bills are focused on revising funding rules for private sector pensions and increasing premiums paid to the PBGC, both include measures that would affect participants in public plans. The letter to members of the House Ways and Means Committee, the House Education and the Workforce Committee and the Senate Finance Committee asks that the final bill:

- clarify purchase of service credit rules for state and local employees;
- clarify certain rules regarding cash balance pension plans, particularly for governmental plans;
- waive certain early distribution penalties for public safety workers;
- direct the Treasury Department to issue minimum distribution regulations "under which governmental plans can operate on a good-faith basis and continue providing meaningful cost-of-living adjustments, death benefits, and payments to beneficiaries";
- allow public retirees to deduct health care premium expenses from their retirement income;
- make permanent the pension and savings reforms included in the 2001 tax cut bill; and
- allow rollovers of unused funds in flexible spending accounts.